THE ECONOMIC POLICIES OF THE COMMONWEALTH GOVERNMENT OF THE PHILIPPINE ISLANDS

BY

LEO CLAIR STINE

B.Ed., Illinois State Normal University, 1939
A.M., University of Illinois, 1943

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN POLITICAL SCIENCE
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THE ECONOMIC POLICIES OF THE COMMONWEALTH GOVERNMENT OF THE PHILIPPINE ISLANDS

This study is an evaluation of the economic policies of the Commonwealth Government of the Philippine Islands. It is a study of economic planning carried out by a colony in an attempt to prepare itself for independence. In it, the Philippine economy is divided into seven spheres and the policies enunciated and the laws passed in each sphere are examined in detail. Enough attention is given to the administration to determine whether the Government actually carried out the policies which were enacted into law. No detailed study of public administration in the Philippines is included. The spheres considered include tariffs and foreign trade, agriculture, conservation and exploitation of natural resources, industrial development, labor policy, public finance and the control of banking and credit.

The Commonwealth Government was not only interested in adjusting its economy to those conditions which it would have to face after independence and American tariffs were levied on its products, but also it was concerned with raising the standard of living of the masses of Filipinos. It was not entirely successful in carrying out either of these objectives. In the first place, the War cut its efforts short at the end of only six years of the ten year Commonwealth period. The vested interests, American tariff policy, and the failure of the Commonwealth Government to follow through administratively each may be credited in part with reducing the effectiveness of the Government's policies.

The policy of free trade between the Philippines and the United States which had been enacted into law by the Congress of the United States in 1909[1] established the framework within which the Commonwealth Government was

1. 36 U. S. Statutes at Large 11, (1909).

forced to fit its economic program. The Filipinos had opposed free trade at that time fearing that such a policy would tie their economy to that of the United States and thus make it more difficult for them to achieve independence.

By 1935 the fears of the Filipinos had been realized and much of their economy was dependent upon the continuation of free trade with the United States. As a part of the Tydings-McDuffie Act[2], the Congress of the United States provided that the Commonwealth period should be divided into two five-year periods. Free trade was to continue during the first five years, November 15, 1935 to November 15, 1940, except that maximum tariff free quotas were established on sugar, coconut oil and hemp. Shipments in excess of these quotas were required to pay full United States duties. During the second five-year period, that is from November 15, 1940 to July 4, 1946, a system of graduated export taxes was to be established which began at five per cent of the United States duty and were to increase five per cent each year until they reached 25 per cent at the end of the ninth year.

Some of the tariff provisions of the Tydings-McDuffie Act were changed in 1939. Duty free quotas were established for four important products, cigars, leaf tobacco, coconut oil and pearl buttons. These quotas were to go into effect on January 1, 1941 and were to be decreased by five per cent each year until July 4, 1946. An absolute quota was placed upon cordage. American products were to enter the Philippines free of duty during the entire Commonwealth period.

This free trade policy, controlled by the Congress of the United States, made it very difficult if not impossible for the Commonwealth Government to bring about the necessary adjustment. New Filipino industries could not be expected to compete with the products of American factories. Industries which should have been either suppressed or discouraged in the Philippines enjoyed a practically unlimited

2. 48 U. S. Statutes at Large 464, (1934).

market for their products in the United States.

The sugar industry is a very good illustration of the latter condition. Very few Filipino or American economists felt that Philippine sugar could compete with other sugar in the American market when the American tariff was assessed on it at the end of the Commonwealth period. The Commonwealth Government tried to interest sugar growers in growing cotton, onions and other products for which it was expected that a ready market would continue to exist after independence. This policy met with little or no success because Philippine sugar could still be shipped to the United States duty free.

Although the adjustment of sugar production was an important problem for the Commonwealth Government, the most difficult and intricate situation which it had to face was the farm tenancy situation. The time alloted was too short to solve such age-old and difficult problems, but the Government's efforts represented steps in the right direction. It was here that the vested interests were most strongly entrenched. Filipino, Spanish and American land owners did not yield easily to the Government's efforts. It is to the credit of the Commonwealth Government that it recognized that such a problem could not be settled by the transfer of the ownership of the land alone. No doubt it overlooked some solutions which might have offered the peasants more security than they then had at somewhat less cost to the Government, but Filipino tenants needed more than security. They needed more land, better seeds, a knowledge of better farming methods, more adequate marketing facilities, a source of short term credit at low interest rates and finally some one to help them enforce the provisions of the contracts between themselves and their landlords. The Commonwealth Government attempted to provide all of these things. That its attempts fell short of their goal is clear. Furthermore, the reasons were not all to be found in matters over which the Government had no control.

Here, as in many other cases, administration of Philippine law left much to be desired. The National Assembly often failed to provide either the money or the men which were necessary to make good administration possible.

One of the more obvious cases of failure to follow up its policies with good administration occured in the conservation of natural resources. The Commonwealth Constitution provided that lands of the public domain containing minerals or forests were to remain the property of the state and could only be leased to private interests for periods not to exceed 25 years and that all such leases were to be granted to citizens of the Philippines or to corporations 60 per cent of which were owned by Filipinos. Appended to the Constitution was a provision that citizens of the United States were to be granted the same rights as Filipinos to exploit natural resources until the Philippines were granted their independence. This same provision was extended until 1972 as a result of an amendment to the Constitution which was adopted in 1947.

The National Assembly of the Commonwealth Government passed laws implementing those provisions of the Constitution. The mining industry, which did not develop until the Commonwealth period, was ordinarily well regulated by the Government. It was in the administration of forestry and fishing laws that the Government failed in large measure. The National Assembly did not provide for adequate personnel or equipment to patrol the forests or the costal waters so that violations of conservation laws were numerous. Attempts to reserve the exploitation of fishing waters for Philippine citizens met with little success. The Japanese, taking advantage of the extensive nature of the Philippine waters, were able to fish almost at will in the more remote waters of the Philippine Islands. The Filipino peasants were the most numerous violators of the forestry laws which required them to secure permits to cut down trees. In the eleven months previous to November 30, 1938, more than 10,000 violations of the forestry laws were reported by the

Secretary of Agriculture and Commerce[3].

The rapid destruction of forests and depletion of the quantities of fish has been the result of failure to administer conservation laws properly. This fact was called to the attention of the Commonwealth Government by the Joint-Preparatory Committee in its Report of 1938[4]. The Government improved its administration following this Report and just prior to the War was making a strong effort to eliminate violations of the conservation laws.

The Commonwealth Government felt that if it were to carry out its objectives it would need to promote considerable industrialization of the economy. It made some investigations of the possibilities of introducing certain new industries. It was forced to do considerable spade work before industrialization was possible. Extensive plans for the development of hydro-electric power were drawn up and construction had been almost completed on one important additional hydro-electric plant near Manila prior to the War.

Transportation and communication facilities had to be improved and expanded before industrialization on any large scale was possible. The Government already owned one of the railroads which served much of the Island of Luzon. Some of its lines were torn up and others extended in an effort to improve and extend the service of the road. The other railroad, a privately owned road located on the Islands of Cebu and Panay, was almost bankrupt. The Government attempted to correct the financial difficulties of the Company and finally took over its operation rather than allow it to cease service.

Road building was still in a primitive stage at the beginning of the period. Most of the first class roads which existed were to be found in Central Luzon and to a lesser extent in the Visayan Islands. The vast Island of Mindanao, upon

3. **Annual Report of the Secretary of Agriculture and Commerce,** (1938), p. 53.
4. This was a Committee made up of both Americans and Filipinos which was established to study the Philippine economy and to recommend changes which it felt should be made in the tariff provisions of the Tydings-McDuffie Act. Joint Preparatory Committee, **Report of May 20, 1938,** Vol. 1, p. 136.

which the Government wished to develop some of its industries, was practically a jungle, with only a few very poor roads leading into the interior. At the time the Commonwealth Government was established only 9,272.2 kilometers of first class roads and 4.878.5 kilometers of second class roads existed in the entire country[5].

By 1941 there were 12,475.1 kilometers of first class and 7,798.4 kilometers of second class roads in the Philippines[6]. Thus in the first six years the Commonwealth Government constructed more than 3,000 kilometers of first class and almost 3,000 kilometers of second class roads.

Interisland transportation was a major source of concern because of the numerous small islands which make up the Philippine group. The port facilities were barely adequate for the agrarian economy and would not be adequate to meet the requirements of an industrialized one. There was not sufficient shipping to take care of any increased activity. The Commonwealth Government constructed new port facilities and began efforts through the National Development Company, a government corporation, to develop a Philippine merchant fleet. The Government offered to loan up to 60 per cent of the purchase price of the merchant ships acquired by private interests. It also tried to encourage air transportation by building new air ports and establishing a Bureau of Aeronautics in the Department of Public Works and Communications.

Very little was done by the Commonwealth Government with communication facilities. The telegraph and cable system was owned and operated by the Government but the telephone system was privately owned. Neither were adequate to take care of increased industrialization.

Finally, in order to stimulate industrialization, the Commonwealth Government established a number of government

5. **Annual Report of the Bureau of Public Works,** (1936), p. 44.
6. **Yearbook of Philippine Statistics,** (1946), p. 304.

corporations. Some of these corporations, of which the textile mills are a good example, were expected to demonstrate to private capital that such industries could be profitably operated in the Philippines. Others, such as the Cebu-Portland Cement Company, were expected to furnish necessary raw materials needed in industrialization. Still others were established for the purpose of stabilizing the market for Philippine products. The best examples of the latter type were the National Food Products Corporation, The National Produce Exchange and the National Rice and Corn Corporation. Others, such as the Peoples Homesite Corporation and the National Land Settlement Administration, were established to furnish goods and services for the Philippine people which private enterprisers could not be expected to furnish.

The attitude of the Commonwealth Government toward the masses is best illustrated by its labor policies. The conditions of Philippine labor at the beginning of the period were miserable. Wages were extremely low. The average daily wage of the laborer was approximately $0.35 in 1935[7]. Workers often worked ten or twelve hours a day and vacations with pay were unheard-of. Safety conditions left much to be desired. At best, the masses of Filipino workers lived on a standard of living for which there is no comparison in the United States. Had it not been for the fact that they lived in a tropical climate, their existance would have been unbearable if not impossible. It is little wonder that they were always in debt, that they could not send their children to school, that they could not read or write or that they fell easy prey to tuberculosis.

The Commonwealth Government did much to correct these conditions. President Quezon made the welfare of the Filipino laborer the primary concern of his administration. Under his orders the Government assumed the role of a model employer. The National Assembly passed laws designed to provide minimum salary and maximum rent scales, to in-

7. **Annual Report of the Secretary of Labor,** (Nov. 15, 1935 to Dec. 31, 1936), p. 12.

augurate safety regulations for hazardous occupations, to recognize and regulate legitimate labor organizations and to provide machinery for the final settlement of labor disputes which could not be settled by the Department of Labor. As a part of this machinery for settlement of labor disputes, the Government established the Court of Industrial Relations with the power to provide compulsory arbitration for certain types of labor disputes.

Philippine labor policies would have been much more effective if the administration of the laws had not broken down. There was a tendency on the part of the Filipino legislators to feel that their responsibility ended when the laws were passed. All too often no money was appropriated to provide for the administration of these laws. The executive department was always short on personnel needed to execute effectively the laws passed. Available personnel had to be shifted from one section of the Department of Labor to another as emergencies arose and no carefully planned campaign of administration was possible under the circumstances. When laws could be enforced by private suits in court or by filing a complaint with the Department of Labor, requiring only a hearing and no extensive investigation, they were more effectively administered. There is no doubt that the Philippine laborers were better off when the War with Japan began than they were at the beginning of the Commonwealth period.

Although the Commonwealth Government was not greatly concerned with regulation of banks and banking it did find it necessary to do something about the shortage of banking and credit facilities in the Islands, particularly the rural areas.

The Government was particularly concerned with providing long term credit facilities for its industrialization program, providing short term credit for Filipino retailers and providing short term small loans for small land owners and tenants. At the opening of the Commonwealth period the Philippine National Bank, a government corporation, was supplying both short and long term credit for Philippine

industry and for the Government's own industrialization program. This Bank was primarily a commercial bank, and therefore, its management drew considerable criticism because of some of the loans it made. In 1939 the Commonwealth Government established another bank, the Agricultural and Industrial Bank, to provide long term credit. This Bank was also entrusted with the management of a number of Government funds.

No solution was ever found for the credit problem of the small farmers. Cooperative credit associations were tried but the peasants did not have enough money to purchase memberships in the cooperatives. The Government tried to promote the establishment of rural banks by private capital but such capital as was available found more profitable employment in financing foreign trade. The peasants were generally left to secure their credit from large land owners, Chinese merchants and Filipino moneylenders. All of these groups exploited the farmers, charging them excessive interest rates and requiring them, as a condition of the loans, to sell their crops at prices which would insure the lender considerable profit on their resale either in the export or retail market.

It was in the field of public finance that the two major objectives of the Government's economic policies, adjustment of the economy and improving the lot of the Filipino masses, seemed to the Filipino leaders to conflict. The Government tried to eliminate much of the tax burden falling upon the poorer classes but refused to adopt a tax policy which would greatly reduce the funds which the rich might be persuaded to invest in new industries or which would discourage investors from putting their funds in new industrial pursuits.

The Commonwealth Government did increase income tax rates and made them slightly more progressive but the new tax rates were not nearly as high as the pre-war income tax rate in either the United States or Great Britian. Taxes were not increased greatly on corporation profits. The rates on certain luxury items were increased rather sharply. Sales

taxes were not removed but a better method of administration of such taxes reduced the tax burden on the poorer classes and was designed to encourage Filipinos to go into the retail business.

Most of what had been accomplished by the Commonwealth Government before the end of 1941 was destroyed in the War with Japan. Foreign trade, upon which the Philippines had depended for whatever prosperity they enjoyed, ceased to exist. Crops were destroyed, work animals killed, both cities and rural areas laid waste, mines were flooded and mining equipment destroyed, banks were closed and their funds taken, roads and bridges, port facilities and warehouses were destroyed and the ships used for the all-important interisland shipping were sunk. The Japanese and the Filipino puppet regime which followed, set aside most of the laws which had been passed for the protection of the peasant and laborer. They flooded the country with worthless money and either purchased or took such important items as rice which they shipped to Japan or fed to their soldiers. As a result prices became extremely high and food very scarce. The black market flourished.

The Osmena Administration which took over the government of the Philippines when the Americans succeeded in recapturing the Islands tried hard to reestablish the same laws and economic conditions as those which had existed prior to the War. Toward that end, the Philippine Government secured a promise of eight years more of free trade from the United States to be followed by a 20 year period of gradually increasing tariffs, until in 1972, Philippine products will be forced to pay the full duty on entering the United States. The United States Government paid for some of the losses sustained by Filipinos, transferred large quantities of surplus property then located in the Philippines to the Philippine Government, provided the Philippine Government with the funds out of which they were to rebuild public buildings, roads and bridges and communication facilities and

made loans for rehabilitation.

As a result of the elections of 1946, Manuel Roxas was elected Third President of the Commonwealth and First President of the Philippine Republic. Roxas did not immediately make any marked changes in the economic policies of the Commonwealth.

Most of the energies of the new administration were needed to bring about rehabilitation. Roxas favored restoration "in kind" of losses suffered by Filipinos. His reasoning was that such a policy would mean that much needed goods and services would be quickly restored and Filipinos would be able to purchase them at greatly reduced prices. He also favored the extension of free trade with the United States. These two policies taken together meant the restoration of the status-quo which had existed prior to the War.

The Government of the Republic passed a new Rice Share-Tenancy Law[8] designed to increase the tenants share of the proceeds of the rice harvest and thus to improve the lot of this large group of peasants who were living under miserable conditions and who had taken part in numerous uprisings against the Government in the past. This law did not do very much to improve the tenants' lot. If they had been given all the rice they raised they would have been little better off.

The Government also reestablished the government corporations with the exceptions of a few minor ones. It replaced the Agricultural and Industrial Bank with the Rehabilitation Finance Corporation. This Corporation did not differ very much from the Bank but was designed to cope with the problem of rehabilitation and reconstruction of the Philippine economy.

The Government gave some interest to the previously established resettlement projects and encouraged migration of Filipino peasants to Mindinao as a more permanent solution

8. Republic Act No. 34, (1946).

to the tenancy problem.

The Government of the Republic directed the National Development Company to make an extensive study of the Philippine economy under the supervision of the H. E. Beyster Corporation of Detroit, Michigan, U.S.A. for the purpose of drawing up a program for industrial rehabilitation and development. The report which resulted from that study, issued in October 1947, is the most comprehensive source available on the period following the War with Japan. A number of reports by the Technical Committee to the President of the Philippines furnish the best source of material on the destruction of the Philippine economy during the War. Statistics covering the period just prior to and following the War may be found in the *Yearbook of Philippine Statistics* for 1946. The seven reports of the High Commissioner are excellent sources of material for the entire Commonwealth period although they, just as most other sources, leave out any information on the war years.

In addition the reports of the various departments of the Commonwealth Government cover the activities of the Government for the years from 1935 through 1941. The *Annual Reports of the President of the Philippines to the President of the United States* are useful but duplicate much of the information found in other sources. The most useful series on the Philippine economic scene in the years just prior to the War are the *Civil Affairs Handbooks* on the Philippine Islands which were prepared for the Army Service Forces by a number of agencies of the United States Government. For instance the Handbook on Money and Banking was written by the staff of the Federal Reserve Board of Governors.

Secondary sources are not very numerous and are often highly colored by the economic and political views of the authors. This fact alone makes them extremely inaccurate at times. The best single work on the Philippines which

covers the period included in this study is the late Dr. Joseph R. Hayden's difinitive work entitled *The Philippines,* published in 1942 by The MacMillan Company. Other works may be found which cover only a single phase of this study. In this group a book entitled *American Tariff Policy towards the Philippines, 1898-1946,* by Pedro E. Abelarde deserves mention here. Finally the articles on the Philippines found in the issues of the *Far Eastern Survey* for the period studied will be found equally useful for a less detailed account of specific subjects covered by this study.

VITA

The writer of the present study was born at Danville, Illinois, on October 18, 1914. He attended public school at Diamond School near Danville and graduated from Danville High School in 1932. He received a B.Ed degree from Illinois State Normal University in 1939 and an A.M. degree in social science from the University of Illinois in 1943. He served in the United States Army for thirty-one months a part of which he spent in the Philippine Islands. While there he became interested in making the present study, became acquainted with some Filipinos who held important positions in the Philippine Government and acquired some of the background which made this study possible. He resumed graduate study in April, 1946 at the University of Illinois.

His professional experience includes eighteen months as an educational advisor in the Civilian Conservation Corps, two years as a social science teacher in Illinois high schools and two years as an assistant in the Department of Political Science, University of Illinois.